



Privatization and the U.S. Munitions Base

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16 September 1998

Overview

- **Definitions**
- **Differing Views of Privatization**
- **Comments on Study Recommendations**
- **An Alternate Approach**
- **Depot Privatization**



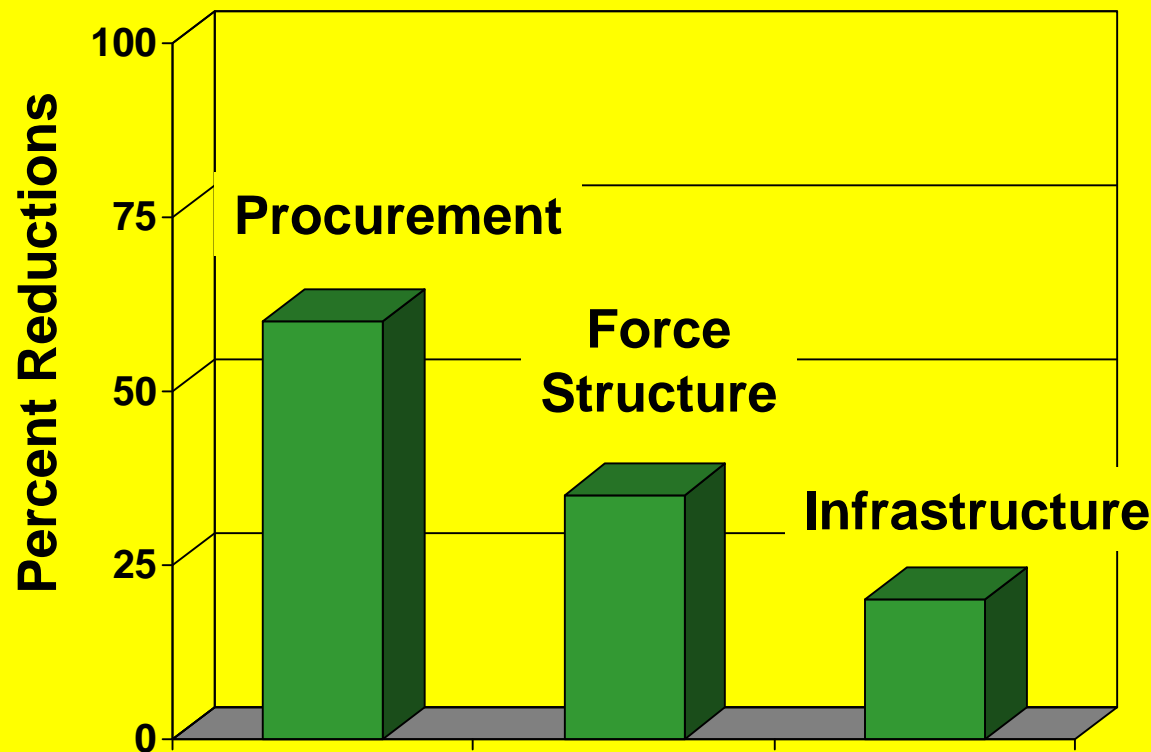
Definitions

- **PRIVATIZATION**
 - The transfer of assets from government ownership to private ownership
- **OUTSOURCING**
 - Contracting out for services and support formerly accomplished with internal government resources

Terms Often Used Interchangeably

Why all the Interest?

- FY97 - 01 DoD Infrastructure Costs: \$740 Billion
- Budget Reductions since 1989:



Infrastructure Not in Sync with Today's Realities

Privatization Theories

- **“Field Of Dreams” Theory:**
 - If you build it, they will come
- **Government Privatization Corollaries:**
 - If we own it, it must have commercial value
 - If we offer it, they will come
- **Industry Executive Reverse Corollary:**
 - If you don’t want it, neither should we

**Much talk about business-case analysis, but
little real appreciation of market forces**

Study Recommendations re Privatization

- **Government owns selected real estate as ammo industrial parks -- “magnets” for ammo producers**
 - **Operated by private site manager**
 - » Invests to attract tenants
 - » Uses site assets to generate revenue
- **Industry finances, owns, & operates production assets; invests to modernize**



Industry Perspective

- **Must provide increasing shareholder value**
- **Driven by Return on Investment (NPV/IRR)**
- **Key factors:**
 - **Stability/predictability**
 - **Ability to control variables**
 - **Ability to leverage assets for maximum return**
 - **Ability to be lean and agile**
 - **Ability to create and sustain a competitive advantage**
- **Think: strategic, integrated, expandable**
 - **Not: limited-use, single program, disassociated**

American Ordnance Model

- **Full-service Commercialization at Iowa & Milan AAPs**
- **Government retains ownership**
- **American Ordnance:**
 - **Operates both plants under FUC**
 - **Has flexibility to consolidate/transfer operations and integrate systems**
 - **Maximizes use of Best Commercial Practices**
 - **Commits to 5-year fixed catalog pricing**
 - **Commits to invest**
 - **Enhances competitiveness for international/third-party sales**
 - **Preserves key production base resources**



Depot Privatization

- **Complicated by numerous laws & regulations**
- **Typical scenario: BRAC, Outsourcing, Real Estate Transfer**
- **Examples of Privatization In Place -- NOSL & NAWC**
 - **Pass-through leases + work contracts**
 - **“Hot Turnovers”**
 - **NAWC seen as most successful**
 - » Viewed differently by contractor
- **Alternative: Public/Private Partnering**

Summary

- **High infrastructure costs mandate spin-off of more government functions and assets**
- **Privatization comes in many forms**
 - Market factors not often understood
 - Not a panacea
- **Commercialization and Partnering offer alternatives**
 - Achieve most objectives of privatization
 - Faster, Cheaper, Better
 - a win-win framework

